Victor Khanye Local Municipality
Annual Financial Statements
for the year ended 30 June 2019

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Provision of municipal services
Grading of local authority	3
Accounting Officer	S.T Matladi
Chief Finance Officer (CFO)	T.P Mahlangu
Members of the Council	E.N Makhabane - Executive Mayor R.K Segone - Speaker E.M Masilela - MMC PITS H.M Ngoma - MMC Fin & Corp R.D Yeko - MMC HSS K.V Buda - Council WHIP N.E Johnson J.D Makobolo T.G Malomane M.M Rautenbach E.M Sekhukhune L.K Semake M.M Sepenyane A. Smith S.S Thumbathi D.J Bath L.S Nyathi M.M Thombeni
Registered office	Municipal Building c/o Samuel and Van der Walt Street Delmas 2210
Bankers	The Standard Bank of South Africa Limited
Auditors	Auditor General of South Africa
Attorneys	Morudu Attorneys
Audit Committee	FJ Mudau J Masite L Langalibalele MG Mathabathe T Boltman

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
CIGFARO	The Chartered Institute of Goverment Finance Audit and Risk Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officers have reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on page 5-74, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed on his behalf by:

Acting Accounting Officer
ST Matladi

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Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	9	1 132 315	2 717 543
Other financial assets	7	157 883	142 349
Receivables from exchange transactions	10	837 000	837 000
Receivables from non-exchange transactions	11	4 463 773	2 931 034
Consumer debtors	12	103 022 010	233 712 902
VAT receivable	51	38 433 903	29 326 046
Cash and cash equivalents	13	-	4 839 698
		148 046 884	**274 506 572**
Non-Current Assets			
Investment property	3	69 599 733	41 722 588
Property, plant and equipment	4	913 486 385	969 381 420
Intangible assets	5	1 981 017	2 032 013
Heritage assets	6	1 074 503	1 074 503
		986 141 638	**1 014 210 524**
Total Assets		**1 134 188 522**	**1 288 717 096**
Liabilities			
Current Liabilities			
Other financial liabilities	15	1 865 653	4 136 656
Payables from exchange transactions	17	456 320 742	221 689 675
Consumer deposits	18	1 416 651	1 567 900
Employee benefit obligation	8	1 041 035	1 066 708
Provisions	16	5 311 797	5 022 000
Long service awards	39	530 435	587 379
Bank overdraft	13	25 393 580	-
		491 879 893	**234 070 318**
Non-Current Liabilities			
Other financial liabilities	15	5 662 324	7 024 291
Employee benefit obligation	8	27 304 823	46 378 569
Provisions	16	4 649 901	4 649 901
Long service awards	39	5 666 823	5 559 525
		43 283 871	**63 612 286**
Total Liabilities		**535 163 764**	**297 682 604**
Net Assets		**599 024 758**	**992 127 626**
Accumulated surplus		599 024 758	992 127 626

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* See Note 50 & 49

Victor Khanye Local Municipality
(Registration number MP311)
Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	188 240 174	148 852 163
Rental of facilities and equipment	21	1 245 383	2 030 057
Interest received	40	62 368 146	41 457 535
Licences and permits		654	-
Administration and management fees received		1 182 285	4 826
Fees earned		445 714	17 469
Commissions received		6 991	2 419 239
Other income		144 575	757
Fair value adjustments		15 785	-
Actuarial gains		26 956 083	-
Total revenue from exchange transactions		**280 605 790**	**194 782 046**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	69 979 547	63 704 144
Transfer revenue			
Government grants & subsidies	23	115 428 000	114 006 188
Public contributions and donations	24	5 951 691	5 852 518
Traffic fines		1 110 547	13 410 069
Total revenue from non-exchange transactions		**192 469 785**	**196 972 919**
Total revenue	19	**473 075 575**	**391 754 965**
Expenditure			
Employee related costs	25	(152 595 031)	(139 715 209)
Remuneration of councillors	26	(7 592 552)	(7 725 859)
Depreciation and amortisation	27	(64 133 162)	(73 516 022)
Finance costs	28	(5 636 061)	(2 145 996)
Lease rentals on operating lease	47	(11 748)	(2 149 660)
Debt Impairment		(253 721 929)	3 198 252
Bulk purchases	29	(214 015 727)	(185 648 036)
Contracted services	30	(57 329 811)	(50 195 051)
Loss on disposal of assets and liabilities		(1 772 124)	-
Operational Cost	31	(47 700 372)	(38 862 824)
Total expenditure		**(804 508 517)**	**(496 760 405)**
Deficit for the year		**(331 432 942)**	**(73 301 988)**

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* See Note 50 & 49

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2017	**1 114 080 121**	**1 114 080 121**
Changes in net assets		
Surplus for the year	(72 061 957)	(72 061 957)
Total changes	(72 061 957)	(72 061 957)
Prior year adjustments	(22 902 882)	(22 902 882)
Restated* Balance at 01 July 2018	**1 019 115 282**	**1 019 115 282**
Changes in net assets		
Surplus for the year	(420 090 524)	(420 090 524)
Total changes	(420 090 524)	(420 090 524)
Balance at 30 June 2019	**599 024 758**	**599 024 758**

Note(s)

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* See Note 50 & 49

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		258 219 721	116 377 502
Grants		115 269 594	114 006 188
Interest income		62 368 146	280 292
Other receipts		30 486 920	13 410 069
		466 344 381	244 074 051
Payments			
Employee costs		(152 595 031)	(144 232 796)
Suppliers		(298 775 159)	(234 658 346)
Finance costs		(5 636 061)	(2 145 996)
		(457 006 251)	(381 037 138)
Net cash flows from operating activities	34	**9 338 130**	**(136 963 087)**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(14 488 056)	(11 925 528)
Proceeds from sale of property, plant and equipment	4	8 193 376	-
Purchase of investment property	3	(30 000 000)	-
Proceeds from sale of investment property	3	305 637	-
Proceeds from sale of financial assets		251	(11 453)
Net cash flows from investing activities		**(35 988 792)**	**(11 936 981)**
Cash flows from financing activities			
Repayment of other financial liabilities		(3 632 970)	(3 032 524)
Movement in long service awards		50 354	706 766
Net cash flows from financing activities		**(3 582 616)**	**(2 325 758)**
Net increase/(decrease) in cash and cash equivalents		**(30 233 278)**	**(5 036 233)**
Cash and cash equivalents at the beginning of the year		4 839 698	9 875 931
Cash and cash equivalents at the end of the year	13	**(25 393 580)**	**4 839 698**

* See Note 50 & 49

Victor Khanye Local Municipality

(Registration number MP311)
Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	225 881 903	-	**225 881 903**	188 240 174	**(37 641 729)**	
Rental of facilities and equipment	2 899 200	-	**2 899 200**	1 245 383	**(1 653 817)**	
Interest received (trading)	32 267 297	7 869 533	**40 136 830**	62 368 146	**22 231 316**	
Licences and permits	1 833 366	-	**1 833 366**	654	**(1 832 712)**	
Administrative Handling Fees	-	-	-	1 182 285	**1 182 285**	
Fees earned	-	-	-	445 714	**445 714**	
Commissions received	-	-	-	6 991	**6 991**	
Other income	2 696 358	5 197 200	**7 893 558**	144 575	**(7 748 983)**	
Total revenue from exchange transactions	**265 578 124**	**13 066 733**	**278 644 857**	**253 633 922**	**(25 010 935)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	93 566 032	-	**93 566 032**	69 979 547	**(23 586 485)**	
Transfer revenue						
Government grants & subsidies	88 956 998	-	**88 956 998**	115 428 000	**26 471 002**	
Public contributions and donations	-	-	-	5 951 691	**5 951 691**	
Fines, Penalties and Forfeits	2 046 430	3 600	**2 050 030**	1 110 547	**(939 483)**	
Total revenue from non-exchange transactions	**184 569 460**	**3 600**	**184 573 060**	**192 469 785**	**7 896 725**	
Total revenue	**450 147 584**	**13 070 333**	**463 217 917**	**446 103 707**	**(17 114 210)**	
Expenditure						
Personnel	(162 990 065)	8 364 973	**(154 625 092)**	(152 595 031)	**2 030 061**	
Remuneration of councillors	(7 351 094)	-	**(7 351 094)**	(7 592 552)	**(241 458)**	
Depreciation and amortisation	(35 126 742)	15 126 742	**(20 000 000)**	(64 133 162)	**(44 133 162)**	
Finance costs	-	-	-	(5 636 061)	**(5 636 061)**	
Lease rentals on operating lease	-	-	-	(11 748)	**(11 748)**	
Debt impairment	(25 000 000)	14 000 000	**(11 000 000)**	(253 721 929)	**(242 721 929)**	
Bulk purchases	(143 000 000)	(28 859 958)	**(171 859 958)**	(214 015 727)	**(42 155 769)**	
Contracted Services	(60 419 145)	(13 600 947)	**(74 020 092)**	(57 329 811)	**16 690 281**	
General Expenses	(9 252 003)	3 307 157	**(5 944 846)**	(50 902 403)	**(44 957 557)**	
Total expenditure	**(443 139 049)**	**(1 662 033)**	**(444 801 082)**	**(805 938 424)**	**(361 137 342)**	
Operating deficit	**7 008 535**	**11 408 300**	**18 416 835**	**(359 834 717)**	**(378 251 552)**	
Loss on disposal of assets and liabilities	-	-	-	(1 772 124)	**(1 772 124)**	
Fair value adjustments	-	-	-	15 785	**15 785**	
Actuarial gains/losses	-	-	-	26 956 083	**26 956 083**	
	-	**-**	**-**	**25 199 744**	**25 199 744**	
Deficit before taxation	**7 008 535**	**11 408 300**	**18 416 835**	**(334 634 973)**	**(353 051 808)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**7 008 535**	**11 408 300**	**18 416 835**	**(334 634 973)**	**(353 051 808)**	

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Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of waste and water network and other assets

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 8.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	50 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

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1.4 Investment property (continued)

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 3).

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The Landfill site asset will be depreciated over its remaining useful life, and in the case of a change in the carrying amount of the asset, will be depreciated over its remaining useful life based on its new carrying amount. Once the asset has reached the end of its useful life, any subsequent changes in the provision will be recognised in surplus or deficit as they occur.

Item	Depreciation method	Average useful life

Accounting Policies

1.5 Property, plant and equipment (continued)

Land and Buildings - Land		Indefinate
Land and Buildings - Buildings	Straight line	50 years
Plant and Machinery	Straight line	5 years
Furniture and Fittings	Straight line	7 years
Landfill Site	Straight line	33 years
Motor vehicles	Straight line	5 - 10 years
Office equipment	Straight line	3 - 5 years
Infrastructure - Electricity	Straight line	5 - 60 years
Emergency Equipment	Straight line	20 years
Infrastructure - Roads	Straight line	2 - 50 years
Infrastructure - Sanitation	Straight line	5 - 100 years
Infrastructure - Water	Straight line	5 - 100 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 4).

1.6 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

1.6 Intangible assets (continued)

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	indefinite

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 5).

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

1.7 Heritage assets (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

Accounting Policies

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, a entity estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Accounting Policies

1.8 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial assets	Financial asset measured at fair value
Investments	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other receivables	Financial asset measured at amortised cost

1.8 Financial instruments (continued)

Trade receivables	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial liabilities	Financial liability measured at fair value
Other payables	Financial liability measured at amortised cost
Trade Payables	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The Municipality measures financial assets at fair value through profit and loss or at amortised cost, or cost. Financial assets under cost are subject to an impairment review.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

Accounting Policies

1.8 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions.

1.9 Tax

Value added tax

The municipality is registered for VAT on the payment basis. Revenue, expenses and assets are recognised net of the amount of value added tax. The net amount of value added tax from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in accumulated surplus.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

1.11 Inventories (continued)

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Vested employee benefits are employee benefits that are not conditional on future employment.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

1.12 Employee benefits (continued)

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

1.12 Employee benefits (continued)

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality. The municipality's obligation under these plans is valued by independent qualified actuaries annualy and corresponding liability is raised.

Payment are offset against the liability, including notional interest, resulting from the valuation by the actuaries is charged against the Statement of Financial Performance as employee benefitsupon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.13 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

1.13 Provisions and contingencies (continued)

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Decommissioning, restoration and similar liability

1.13 Provisions and contingencies (continued)

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy and .

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.14 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue arising from the application of the approved rariff of charges is recognised when the service is rendered by applying the relevant authorised tariff.

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.

Rendering of service

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transacti,on is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executeds.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Finance Income

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Accounting Policies

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

1.16 Revenue from non-exchange transactions (continued)

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the accumulated surplus in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the accumulated surplus.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the accumulated surplus in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the accumulated surplus.

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

1.22 Irregular expenditure (continued)

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act, or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Accumulated Surplus and where recovered, it is subsequently accounted for as revenue in the Accumulated Surplus.

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis.

The approved budget covers the fiscal period from 01 July 2018 to 30 June 2019.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.24 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

1.24 Related parties (continued)

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.26 Government grants and receipts

Income received from conditional grants and funding are recognised are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligation embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Government grants that are receivables as compensation for the expenses or losses already incurred or purpose of giving immediate financial support to the municipality with no furture related cost, are recognised in the Statement of Financial Performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

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Figures in Rand	2019	2018

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2099	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2099	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2099	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
• Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges	01 April 2019	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact

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3. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	96 975 734	(27 376 001)	69 599 733	67 452 637	(25 730 049)	41 722 588

Reconciliation of investment property - 2019

	Opening balance	Additions	Disposals	Depreciation	Total
Investment property	41 726 136	30 000 000	(476 903)	(1 649 500)	69 599 733

Reconciliation of investment property - 2018

	Opening balance	Disposals	Depreciation	Total
Investment property	45 313 838	(989 984)	(2 600 894)	41 722 960

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Infrastructure - Electricity	227 704 165	(142 172 252)	85 531 913	227 889 338	(132 840 006)	95 049 332
Infrastructure - Roads and Stormwater	501 373 103	(291 110 761)	210 262 342	500 495 528	(276 945 912)	223 549 616
Infrastructure - Sanitation	365 333 065	(210 288 641)	155 044 424	365 410 750	(199 805 089)	165 605 661
Infrastructure - Water	428 193 973	(233 804 258)	194 389 715	433 856 516	(222 913 255)	210 943 261
Community assets/ Buildings	157 047 320	(85 947 297)	71 100 023	157 369 799	(79 344 991)	78 024 808
Computer assets	4 896 438	(3 159 785)	1 736 653	3 710 142	(2 597 526)	1 112 616
Fire equipment	1 709 140	(905 457)	803 683	1 710 890	(833 288)	877 602
Machinery and equipment	4 512 194	(3 151 774)	1 360 420	3 785 655	(2 800 331)	985 324
Furniture and office equipment	5 201 901	(4 124 691)	1 077 210	4 829 251	(3 844 848)	984 403
Land	168 355 709	(23 246)	168 332 463	172 399 605	(12 125)	172 387 480
Solid waste - Landfill	8 517 283	(223 715)	8 293 568	4 649 901	(536 516)	4 113 385
Transport assets	29 545 532	(13 991 561)	15 553 971	27 284 959	(11 537 027)	15 747 932
Total	**1 674 685 658**	**(988 903 438)**	**913 486 385**	**1 903 392 334**	**(934 010 914)**	**969 381 420**

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Cost adjustments	Depreciation	Total
Land	172 387 480	1 271 260	(5 315 156)	-	(11 121)	168 332 463
Infrastructure - Roads and stormwater	223 549 614	927 788	(25 734)	-	(14 189 326)	210 262 342
Infrastructure - Sanitation	165 605 661	296 107	(107 548)	-	(10 749 796)	155 044 424
Infrastructure - Water	210 943 261	2 577 215	(2 100 721)	-	(17 030 040)	194 389 715
Community assets/ buildings	78 024 808	386 142	(318 880)	-	(6 992 047)	71 100 023
Computer assets	1 142 941	1 295 550	(32 696)	-	(638 817)	1 736 653
Fire equipment	877 602	-	(158)	-	(73 761)	803 683
Machinery and equipment	985 324	763 089	(23 977)	-	(364 016)	1 360 420

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Furniture and office equipment	984 403	403 099	(3 949)	-	(306 343)	1 077 210
Infrastructure - Electricity	95 049 332	146 287	(264 557)	-	(9 399 149)	85 531 913
Solid Waste	4 113 386	4 160 946	-	242 952	(223 715)	8 293 567
Transport assets	15 747 932	2 260 573	-	-	(2 454 534)	15 553 971
	969 411 744	**14 488 056**	**(8 193 376)**	**242 952**	**(62 432 665)**	**913 486 384**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Cost Adjustments	Depreciation	Total
Infrastructure - Electricity	106 625 696	2 638 537	(3 980)	-	(14 210 921)	95 049 332
Infrastructure - Roads and Stormwater	230 057 455	7 618 284	(2 316)	-	(14 125 808)	223 547 615
Infrastructure - Sanitation	174 850 964	1 758 376	(421 332)	-	(10 582 347)	165 605 661
Infrastructure - Water	230 979 914	651 800	(2 430 408)	-	(17 255 334)	211 945 972
Community assets/ Buildings	89 432 850	30 894	(75 289)	-	(7 618 269)	81 770 186
Computer assets	1 218 231	518 412	(107 375)	-	(516 652)	1 112 616
Fire equipment	969 890	-	-	-	(92 288)	877 602
Machinery and equipment	1 504 819	167 239	(39 621)	-	(647 113)	985 324
Furniture and office euipment	1 636 559	48 253	(5 733)	-	(694 676)	984 403
Land	172 404 945	-	(5 340)	-	(12 125)	172 387 480
Solid waste	5 003 332	-	-	(703 950)	(185 996)	4 113 386
Transport assets	16 637 494	3 350 000	-	-	(4 238 261)	15 749 233
	1 031 322 149	**16 781 795**	**(3 091 394)**	**(703 950)**	**(70 179 790)**	**974 128 810**

Pledged as security

No assets were pledged as security in the year under review.

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4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2019

	Included within Community	Total
Opening balance	8 162 235	8 162 235
Additions/capital expenditure	18 391 225	18 391 225
Transferred to completed items	(6 729 495)	(6 729 495)
	19 823 965	**19 823 965**

Reconciliation of Work-in-Progress 2018

	Included within Community	Total
Opening balance	5 140 055	5 140 055
Additions/capital expenditure	1 506 364	1 506 364
Other movements	1 515 816	1 515 816
	8 162 235	**8 162 235**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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5. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 032 014	(50 997)	1 981 017	2 083 011	(50 998)	2 032 013

The register required in terms of MFMA is available for inspection at Municipal offices.

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	2 032 014	(50 997)	1 981 017

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	2 083 011	(50 998)	2 032 013

Pledged as security

There are no intangible assets pledged as security.

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6. Heritage assets

	2019			2018		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Art Collections, antiquities and exhibits	1 102 112	(27 609)	1 074 503	1 102 112	(27 609)	1 074 503

Reconciliation of heritage assets 2019

	Opening balance	Total
Art Collections, antiquities and exhibits	1 074 503	1 074 503

Reconciliation of heritage assets 2018

	Opening balance	Total
Art Collections, antiquities and exhibits	1 074 503	1 074 503

7. Other financial assets

Designated at fair value		
Listed investment - Sanlam The number of shares is 2020 calculated closing price of R30.84 (2018: R70.07) per share.	157 883	142 349
Current assets		
At FV through Profit and Loss	157 883	142 349

8. Employee benefit obligations

Post Employment Medical Aid Obligation

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. The municipality has requested Arch Actuarial Consulting to prepare an actuarial valuation of the municipality's liability as at 30 June 2018 based on the post-employment health care benefits. The valuation was done to ensure appropriate provision in accordance with GRAP25. The actuarial valuation method used was the "Projected Unit Credit Method" as prescribed by GRAP25.

Key Assumptions

Assumption	2019 Value p.a	2018 Value p.a
Discount rate	9.39%	9.69%
Health care cost inflation rate	6.86%	7.45%
Net-of-health-care-cost-inflation discount rate	2.37%	2.08%
Maximum subsidy inflation rate	4.77%	5.21%
Net-of-maximum-subsidy-inflation discount rate	4.41%	4.26%

The liability at the Valuation Date was recalculated to show the effect of:

(i) A 1% increase and decrease in the assumed rate of health care cost inflation
(ii) A 1% increase and decrease in the discount rate;
(iii) A one-year age reduction in the assumed rates of post-retirement mortality;
(iv) A one-year decrease in the assumed average retirement age; and
(v) A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement.

Assumption	Change	Eligible Employees	Continuation Members	Total	% Change
Central assumptions		17.058	11.287	28.346	
Health care inflation	+1%	19.585	11.597	31.182	10%
	-1%	14.366	10.760	25.126	-11%
Discount rate	+1%	14.135	10.417	24.552	-13%
	-1%	20.878	12.296	33.174	17%
Post-retirement mortality	-1 yr	17.522	11.676	29.197	3%
Average retirement age	-1 yr	18.604	11.287	29.892	5%
Continuation ofmembership at retirement	-10%	13.851	11.287	25.139	-11%

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Figures in Rand	2019	2018

8. **Employee benefit obligations (continued)**

Summarises the results of this analysis on the Current-Service and Interest Costs for the year ending 30 June 2020

Sensitivity Analysis on Current-Service and Interest Costs for year ending 30/06/2020.

Assumption	Change	Current Svc. Cost	Interest Cost	Total	% Change
Central assumptions		1,694,100	2,613,900	4,308,000	
Health care inflation	+1%	1,966,200	2,880,000	4,846,200	12%
	-1%	1,395,100	2,311,800	3,706,900	-14%
Discount rate	+1%	1,380,300	2,498,200	3,878,500	-10%
	-1%	2,109,300	2,740,500	4,849,800	13%
Post-employment mortality	-1 yr	1,739,100	2,693,900	4,433,000	3%
Average retirement age	-1 yr	1,793,600	2,759,100	4,552,700	6%
Continuation ofmembership at retirement	-10%	1,395,200	2,312,800	3,708,000	-14%

Summarises the results of this analysis on the Current-Service and Interest Costs for the year ending 30 June 2019:

Sensitivity Analysis on Current-Service and Interest Costs for year ending 30/06/2019.

Assumption	Change	Current Svc. Cost	Interest Cost	Total	% Change
Central assumptions		3,768,700	4,547,000	8,315,700	
Health care inflation	+1%	4,268,800	4,974,300	9,243,100	11%
	-1%	3,139,500	4,016,300	7,155,800	-14%
Discount rate	+1%	3,059,200	4,267,800	7,327,000	-12%
	-1%	4,710,600	4,860,600	9,571,200	15%
Post-employment mortality	-1 yr	3,853,600	4,661,900	8,515,500	2%
Average retirement age	-1 yr	3,849,600	4,850,000	8,699,600	5%

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8. Employee benefit obligations (continued)

Continuation ofmembership at retirement	-10%	3,231,900	4,028,600	7,260,500	-13%

Sensitivity Analysis on long service awards
Key Financial Assumptions

Past and Future Changes in the Accrued Liability.

Past year and future projected Liability.

	Year ending30/06/2019	Year ending30/06/2020	Year ending30/06/2021
Opening Accrued Liability	47,445,277	28,345,858	31,612,777
Current-Service Cost	3,768,700	1,694,058	1,853,130
Interest Cost	4,546,960	2,613,896	2,917,382
Expected Contributions (benefits paid)	* (1,066,708)	(1,041,035)	(1,112,450)
Total Annual Expense	7,248,952	3,266,919	3,658,062
Actuarial Loss / (Gain)	(26,348,371)		
Closing Accrued Liability	28,345,858	31,612,277	35,270,839

Comparison of assumptions

Assumption	30/06/2018	30/06/2019
Discount rate	9.69%	9.39%
Health care cost inflation rate	7.45%	6.86%
Net-of-health-care-cost-inflation discount rate	2.08%	2.37%
Maximum subsidy inflation rate	5.21%	4.77%
Net-of-maximum-subsidy-inflation discount rate	4.26%	4.41%

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Employee benefit obligation

	2019	2018
Short term employee benefit obligation	1 041 035	1 066 708
Long term employee benefit obligation	27 304 823	46 378 569
	28 345 858	**47 445 277**

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8. Employee benefit obligations (continued)

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. The municipality has requested Arch Actuarial Consulting to prepare an actuarial valuation of the municipality's liability as at 30 June 2019 based on the post-employment health care benefits. The valuation was done to ensure appropriate provision in accordance with GRAP25. The actuarial valuation method used was the "Projected Unit Credit Method" as prescribed by GRAP25.

9. Inventories

	2019	2018
Consumables	1 406 248	2 223 756
Water	215 517	241 797
Inventory-RDP Houses	-	251 990
	1 621 765	2 717 543
Inventories (write-downs)	(489 450)	-
	1 132 315	**2 717 543**

	2019	2018
Carrying value of inventories carried at fair value less costs to sell	1 132 315	2 717 543
Inventories recognised as an expense during the year	489 450	-

In the current year, 29 500 litres of diesel loss was written down to R489 450.

10. Receivables from exchange transactions

	2019	2018
Sundry receivables	837 000	837 000

11. Receivables from non-exchange transactions

	2019	2018
Traffic Fines - Cost	5 372 292	17 501 983
Traffic fines - impairment provision	(1 328 519)	(14 990 949)
Other receivables from non-exchange	420 000	420 000
	4 463 773	**2 931 034**

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12. Consumer debtors

Gross balances		
Rates	134 223 057	98 706 278
Electricity	47 347 237	32 548 576
Water	369 647 137	207 348 735
Sewerage	31 127 069	17 310 853
Refuse	15 869 281	14 573 993
Sundry debtors	552 148 131	208 112 930
	1 150 361 912	**578 601 365**

Less: Allowance for impairment		
Rates	(73 423 597)	(73 423 597)
Electricity	(35 430 971)	(8 908 493)
Water	(299 384 765)	(114 308 996)
Sewerage	(24 206 950)	(12 997 132)
Refuse	(14 195 555)	(11 232 010)
Sundry debtors	(600 698 064)	(124 018 235)
	(1 047 339 902)	**(344 888 463)**

Net balance		
Rates	60 799 460	25 282 681
Electricity	11 916 266	23 640 083
Water	70 262 372	93 039 739
Sewerage	6 920 119	4 313 721
Refuse	1 673 726	3 341 983
Sundry debtors	(48 549 933)	84 094 695
	103 022 010	**233 712 902**

Rates		
Current (0 -30 days)	6 592 999	5 627 585
31 - 60 days	3 778 274	5 345 617
61 - 90 days	3 230 977	3 778 283
91 - 120 days	3 001 170	3 413 272
121 - 365 days	5 186 361	1 561 733
> 365 days	39 009 679	5 556 191
	60 799 460	**25 282 681**

Electricity		
Current (0 -30 days)	3 629 625	3 413 179
31 - 60 days	1 937 924	210 400
61 - 90 days	767 752	180 479
91 - 120 days	716 279	228 368
121 - 365 days	862 457	8 072 194
> 365 days	4 002 229	11 535 463
	11 916 266	**23 640 083**

Water		
Current (0 -30 days)	2 488 216	2 764 389
31 - 60 days	2 226 672	2 914 116
61 - 90 days	2 157 468	2 152 733
91 - 120 days	1 997 440	2 371 899
121 - 365 days	2 018 144	18 523 986
> 365 days	59 374 432	64 312 616
	70 262 372	**93 039 739**

Figures in Rand	2019	2018

12. Consumer debtors (continued)

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Sewerage		
Current (0 -30 days)	807 282	93 649
31 - 60 days	504 742	294 673
61 - 90 days	333 755	169 475
91 - 120 days	393 354	185 217
121 - 365 days	428 761	-
> 365 days	4 452 225	3 570 707
	6 920 119	**4 313 721**

Refuse		
Current (0 -30 days)	2 381 941	321 087
31 - 60 days	1 637 811	262 639
61 - 90 days	767 136	581 069
91 - 120 days	788 655	635 042
121 - 365 days	365 780	365 780
> 365 days	(4 267 597)	1 176 366
	1 673 726	**3 341 983**

Sundry debtors		
Current (0 -30 days)	3 787 471	7 574 943
31 - 60 days	3 200 017	5 571 893
61 - 90 days	5 417 325	5 516 020
91 - 120 days	6 135 747	10 403 388
121 - 365 days	2 178 939	7 621 432
> 365 days	(69 269 432)	47 407 019
	(48 549 933)	**84 094 695**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(344 888 463)	(363 528 183)
current year allowance for impairment	(702 451 439)	18 639 720
	(1 047 339 902)	**(344 888 463)**

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	(8 641)	4 975
Bank balances	(49 987 892)	4 834 723
Short-term deposits	24 602 953	-
	(25 393 580)	**4 839 698**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
Standard BANK - Primary account	1 373 061	284 021	2 029 594	(25 393 580)	(7 675 284)	9 875 931
ABSA Bank	5 674 034	3 001 084	4 961 676	5 674 034	12 524 920	4 961 676
Standard Bank Traffic account	79 110	34 584	120 482	34 584	34 584	120 482
Standard Bank Call account	54 741	-	-	54 741	-	-
Total	**7 180 946**	**3 319 689**	**7 111 752**	**(19 630 221)**	**4 884 220**	**14 958 089**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Finance Management Grant	381 627	(261 250)
Public Works Programme Integrated Grant	(381 627)	9 361 250
	-	**9 100 000**

15. Other financial liabilities

At amortised cost		
Development Bank of Southern Africa - DBSA 61001053 The loan bears interest at a fixed rate of 6.75% per annum. The loan is repayable in bi-annual installments of R602,592 over an initial period of 8 years. The loan matures on 31 December 2020.	1 692 188	2 731 113
Nedbank Loan The loan bears interest at a fixed rate of 10.03% per annum. The loan is repayable in quarterly installments of R732,668 over an initial period of 8 years. The loan matures on 1 July 2021.	5 835 789	8 429 834
	7 527 977	**11 160 947**
Total other financial liabilities	**7 527 977**	**11 160 947**
Non-current liabilities		
At amortised cost	5 662 324	7 024 291
Current liabilities		
At amortised cost	1 865 653	4 136 656

Figures in Rand	2019	2018

16. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	4 649 901	97 054	145 899	4 892 854
Annual Bonus	5 022 000	46 844	-	5 068 844
	9 671 901	**143 898**	**145 899**	**9 961 698**

Reconciliation of provisions - 2018

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	5 353 851	-	(703 950)	4 649 901
Annual Bonus	2 114 634	2 907 366	-	5 022 000
	7 468 485	**2 907 366**	**(703 950)**	**9 671 901**

	2019	2018
Non-current liabilities	4 649 901	4 649 901
Current liabilities	5 311 797	5 022 000
	9 961 698	**9 671 901**

Environmental rehabilitation provision

The site under consideration is the Delmas disposal site. This site has an operational permit with number B33/2/220/9/P218, issued 8 February 1996 in terms of Section 20 of the Environment Conservation Act,1989.

A report with an indication of the uncertainties about the amount or timing of those outflows and the major assumptions made concerning future events was compiled by JPCE (PTY) LTD (Specialist Consulting Engineers).

The landfill closure provision is calculated as net present value of future cashflows based on the expected remaining life of landfill site and also based on the size of the area that had been used for waste disposal as at 30 June 2019. The size of Delmas landfill site used until now is approximately 23 873.54 m3. The remaining life of the landfill is estimated at 24 years.

Key financial assumptions used in this calculation were a CPI of 4.64%, an effective discount rate of 10.15%.

The discounted value of landfill closure provision of R4 892 853 (2018: R4 649 901) represent a decrease of R242 952 which relates to changes in the CPI, discount rate and unit cost.

Performance bonus provision

Bonus provision accrue to section 57 employees and other employees, subject to certain conditions. The provision represents management's best estimate of the amount due to staff at the reporting date.

The provision is calculated at 14% of the total remuneration in terms of the performance agreements at reporting date which is usually paid within one year.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

17. Payables from exchange transactions

Trade payables	270 465 947	143 217 136
Payments received in advanced	807 249	1 222 013
Payroll related cost control accounts	3 014 608	(6 010 816)
Retentions	6 891 350	5 098 437
Accrued leave pay	10 455 383	9 379 229
Sundry creditors	125 343 923	60 913 760
Debtors with credit balances	39 342 282	7 869 916
	456 320 742	**221 689 675**

18. Consumer deposits

Electricity	1 412 176	1 414 579
Water	81 876	148 035
Regional	5 286	5 286
Housing rental	(82 687)	-
	1 416 651	**1 567 900**

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Figures in Rand	2019	2018

19. Revenue

Service charges	188 240 174	148 852 163
Rental of facilities and equipment	1 245 383	2 030 057
Interest received	62 368 146	41 457 535
Licences and permits	654	-
Administration and management fees received	1 182 285	4 826
Fees earned	445 714	17 469
Commissions received	6 991	2 419 239
Fair value adjustments	15 785	-
Other income	144 575	757
Property rates	69 979 547	63 704 144
Government grants & subsidies	115 428 000	114 006 188
Public contributions and donations	5 951 691	5 852 518
Fines, Penalties and Forfeits	1 110 547	13 410 069
	446 119 492	**391 754 965**

Administration and management fees received	1 182 285	4 826
Commissions received	6 991	2 419 239
Fees earned	445 714	17 469
Interest received	62 368 146	73 160 987
Licences and permits	654	-
Other income	144 575	757
Rental of facilities and equipment	1 245 383	2 030 057
Service charges	188 240 174	148 852 163
The amount included in revenue arising from exchanges of goods or services are as follows:		
	253 633 922	**226 485 498**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	69 979 547	63 704 144
Transfer revenue		
Government grants & subsidies	115 428 000	114 006 188
Public contributions and donations	5 951 691	5 852 518
Fines, Penalties and Forfeits	1 110 547	13 410 069
	192 469 785	**196 972 919**

20. Service charges

Sale of electricity	118 118 647	106 530 615
Sale of water	49 241 645	31 541 212
Sewerage and sanitation charges	12 375 285	5 011 439
Refuse removal	8 504 597	5 768 897
	188 240 174	**148 852 163**

21. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	1 245 383	2 097 253

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22. Property rates

Rates received

Residential	69 979 547	14 515 449
Government	-	8 173 165
Small holdings and farms	-	23 062 530
Property rates	-	17 953 000
	69 979 547	**63 704 144**

23. Government grants and subsidies

Operating grants		
Equitable share	87 187 000	76 676 000
Finance Management Grant	1 770 000	1 700 000
Expended Public Works Programme Grant	1 994 000	2 275 000
Energy Efficiency Management Grant	-	6 333 335
	90 951 000	**86 984 335**
Capital grants		
Municipal Infrastructure Grant	24 477 000	27 021 853
	115 428 000	**114 006 188**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	28 241 000	34 261 000
Unconditional grants received	87 187 000	76 676 000
	115 428 000	**110 937 000**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Equitable Share

Current-year receipts	87 187 000	76 676 000
Conditions met - transferred to revenue	(87 187 000)	(76 676 000)
	-	-

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	1 735 845
Current-year receipts	24 477 000	25 286 000
Conditions met - transferred to revenue	(24 477 000)	(27 021 845)
	-	-

The purpose of this grant is to construct basic municipal infrastructure to provide basic services for the benefit of poor household

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

23. Government grants and subsidies (continued)

Financial Management Grant(FMG)

Current-year receipts	1 770 000	1 700 000
Conditions met - transferred to revenue	(1 770 000)	(1 700 000)
	-	-

The purpose of this grant is to promote and support reforms to municipal financial management and the implementation of MFMA and to fund the internship programme

Expanded Public Works Grant (EPWP)

Current-year receipts	1 994 000	2 275 000
Conditions met - transferred to revenue	(1 994 000)	(2 275 000)
	-	-

Energy Efficiency Demand Management System Grant

Balance unspent at beginning of year	-	1 333 334
Current-year receipts	-	5 000 000
Conditions met - transferred to revenue	-	(6 333 334)
	-	-

24. Public contributions and donations

Public contributions and donations	5 951 691	5 852 518

Other public donations received in-kind from Nkangala District Municipality		
Assets contributions on behalf of the municipality	2 140 000	-
Expenses contributions on behalf of municipality	3 811 691	-
	5 951 691	-

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25. Employee related costs

Basic salary	90 864 815	77 826 501
Medical aid	7 563 462	6 831 703
UIF	717 345	605 475
SDL	1 742 734	1 448 402
Other payroll levies	45 112	34 627
Pension and provident fund contributions	16 130 103	15 116 913
Standby Allowance	4 582 319	4 179 215
Defined obligation plans	3 483 536	4 737 683
Travel and motor car allowances	7 005 734	6 772 493
Overtime payments	12 282 859	7 817 056
Long-service awards - Current service cost	740 961	706 766
Housing benefits and allowances	1 760 093	1 547 026
Annual Bonus	5 675 161	10 123 629
Provision for leave expense	797	1 967 720
	152 595 031	**139 715 209**

Remuneration of Municipal Manager

Annual Remuneration	-	442 503
Car Allowance	-	20 000
Acting Allowance	135 084	802 206
	469 149	**784 540**

ST Matladi was the Acting Municipal Manager from 01 July 2018 - 31 December 2018.

WM Maqaza was the Acting Municipal Manager from 01 January 2019 - 30 June 2019.

Remuneration of Chief Finance Officer

Annual Remuneration	894 478	840 688
Car Allowance	102 000	102 000
Acting Allowance	101 768	12 397
Pension and medical aid	44 858	-
	1 143 104	**-**

MI Mbona was the Acting CFO from time to time during 18 July 2018 - 31 October and March 2019 and April 2019.

Director: Technical Services

Annual Remuneration	240 432	-
Car Allowance	50 000	-
Acting Allowance	139 314	784 540
Pension and medical aid	39 403	-
	469 149	**784 540**

A Mvelase has been Acting as Director: Technical Services from time to time during October 2018 and December 2018.

BT Manana has been Acting as Director: Technical Services from July 2018 - September 2018.

Director: Corporate Services

Annual Remuneration	1 100 548	1 153 489
Car Allowance	102 000	102 000
Contributions to UIF, Medical and Pension Funds	119 653	-

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25. Employee related costs (continued)

Acting Allowance	43 846	-
	1 366 047	**1 255 489**

MJ Yingwane has been Acting as Director: Corporate Services from time to time.

Director: Community and Social Services

Annual Remuneration	765 781	248 664
Car Allowance	102 000	24 000
Acting Allowance	135 084	544 759
	764 113	**817 423**

PF Maseko has been Acting as Director: Community and Social Services from 18 July 2018 - 31 December 2018.

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26. Remuneration of Councillors

Salaries	4 301 743	4 824 979
Pension contribution	804 092	672 504
Travel allowance	1 438 941	1 358 422
Cell phone allowance	754 800	601 800
Medical aid	292 976	268 154
	7 592 552	**7 725 859**

Remuneration of the Mayor		
Salaries	525 801	528 335
Pension Contribution	89 018	75 059
Travell Allowance	163 162	155 392
Cell Phone Allowance	44 400	35 400
Medical Aid	49 768	46 128
	872 149	**840 314**

Remuneration of the Speaker		
Salaries	399 381	412 837
Pension Contribution	68 025	58 296
Travell Allowance	130 530	124 313
Cell Phone Allowance	44 400	35 400
Medical Aid	64 264	50 298
	706 600	**681 144**

Remuneration of the Chief Whip		
Salaries	361 633	378 458
Pension Contribution	68 025	51 829
Travell Allowance	130 530	116 545
Cell Phone Allowance	44 400	35 400
Medical Aid	74 952	59 106
	679 540	**641 338**

Remuneration of Other Councillors		
Salaries	3 014 929	3 505 349
Pension Contribution	585 192	487 320
Travel Allowance	1 022 877	962 172
Medical Aid	103 992	112 622
Cell Phone Allowance	621 600	495 600
	5 348 590	**5 563 063**

In-kind benefits

The Executive Mayor, Chief Whip, Speaker and Mayoral Committee Members are full-time.

The Executive Mayor and the Speaker each have the use of separate Council owned and hired vehicles for official duties.

The Executive Mayor has a personal assistant to assist him with his duties.

The remuneration of the political office bearers and councillors are within the upper limits as determined by the framework envisaged in Section 219 of the constitution.

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27. Depreciation and amortisation

	2019	2018
Property, plant and equipment	62 432 665	70 915 128
Investment property	1 649 500	2 600 894
Intangible assets	50 997	-
	64 133 162	**73 516 022**

28. Finance costs

	2019	2018
Non-current borrowings	1 265 823	2 145 996
GRAP 25 Interest cost on medical aid and long service awards	4 273 184	-
GRAP 19 Interest on landfill rehabilitation provision	97 054	-
	5 636 061	**2 145 996**

29. Bulk purchases

	2019	2018
Electricity	138 805 470	109 427 699
Water	75 210 257	76 220 337
	214 015 727	**185 648 036**

Electricity losses

			2019	2018
Units purchased	-	-	121 992 578	118 328 889
Units sold	-	-	(107 704 081)	(92 407 152)
Total loss	-	-	**14 288 497**	**25 921 737**

Percentage Loss:

	2019	2018
Non-technical losses	12 %	22 %

Water losses

			2019	2018
Units purchased	-	-	8 041 208	8 958 368
Units sold	-	-	(1 898 581)	(52 113)
Total	-	-	**6 142 627**	**8 906 255**

Percentage Loss:

	2019	2018
Water losses % in the current year	49 %	70 %

30. Contracted services

Outsourced Services	2019	2018
Animal Care	-	110 826
Burial Services	137 200	76 340
Business and Advisory	7 449 391	3 735 384
Catering Services	1 153 970	-
Meter Management	97 500	-
Personnel and Labour	(3 354)	563 686
Refuse Removal	74 500	1 955 411
Security Services	13 511 111	5 262 709
Traffic Fines Management	557 221	-

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30. Contracted services (continued)

Consultants and Professional Services		
Business and Advisory	3 745 784	13 904 525
Infrastructure and Planning	796 368	106 052
Laboratory Services	-	629 611
Legal Cost	3 704 806	2 930 565
Contractors		
Bore Waterhole Drilling	-	1 571 834
Employee Wellness	29 665	144 102
Gardening Services	-	955
Maintenance of Buildings and Facilities	910 750	152 284
Maintenance of Equipment	3 219 159	1 026 661
Maintenance of Unspecified Assets	21 945 740	18 023 878
Pest Control and Fumigation	-	228
	57 329 811	**50 195 051**

31. Operational Cost

Advertising	572 385	82 826
Auditors remuneration	7 152 790	2 495 887
Bank charges	341 011	287 072
Consumables	10 241 803	2 042 816
Entertainment	90 010	292 628
Fines and penalties	-	12 425
Hire	1 000	308 000
Insurance	279 262	1 443 956
ICT expenses	14 968 742	5 466 267
Printing and stationery	112 727	1 949 738
Protective clothing	1 077 756	1 140 305
Telephone and fax	2 443 254	1 358 772
Travel - local	2 763 450	1 619 729
Refuse Containers & Bags	87 460	-
Other expenses	7 568 722	20 362 403
	47 700 372	**38 862 824**

32. Fair value adjustments

Other financial assets		
• SANLAM Investment (Designated at FV through P&L)	15 785	8 969

33. Auditors' remuneration

Fees	7 152 790	2 495 887

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34. Cash generated from (used in) operations

Deficit	(420 090 524)	(52 171 820)
Adjustments for:		
Depreciation and amortisation	155 062 863	53 566 079
Gain on sale of assets and liabilities	1 772 124	-
Fair value adjustments	(15 785)	-
Finance costs	6 897 726	1 154 269
Interest income	(62 368 146)	(32 267 297)
Debt impairment	280 488 570	(75 707 477)
Movements in Long service awards	(50 354)	(706 766)
Movements in retirement benefit assets and liabilities	(3 289 618)	4 737 683
Movements in provisions	289 797	(8 189 869)
Actuarial gain	(26 348 371)	-
Changes in working capital:		
Inventories	(481 364)	(11 383 584)
Receivables from exchange transactions	-	(143 316)
Consumer debtors	(134 156 078)	(144 220 726)
Other receivables from non-exchange transactions	(1 268 953)	(1 733 209)
VAT receivable	(9 107 857)	(12 778 139)
Payables from exchange transactions	231 255 349	136 883 783
Unspent conditional grants and receipts	(9 100 000)	6 031 322
Consumer deposits	(151 249)	(34 020)
	9 338 130	**(136 963 087)**

35. Unauthorised expenditure

Opening balance	49 253 157	508 681 715
Current year expenditure	-	32 696 356
Less: Amount approved/written off by council	-	(492 124 914)
Closing balance	**49 253 157**	**49 253 157**

36. Fruitless and wasteful expenditure

Opening balance	8 976 780	4 048 605
SARS Penalty	150 231	23 976
Rand Water Interest	7 801 825	1 551 937
Eskom Interest	14 489 303	4 780 077
AGSA	41 690	-
Ado Research Labs	1 250	-
Less: Amount written off/approved by council	-	(1 427 815)
Closing balance	**31 461 079**	**8 976 780**

37. Irregular expenditure

Opening balance	23 631 650	42 642 676
Add: Irregular Expenditure - current year	15 528 536	9 080 647
Less: Amounts approved/written off by council	-	(25 282 365)
Closing balance	**39 160 186**	**26 440 958**

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38. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

DATE	SUPPLIER	SERVICE DESCRIPTION	SERVICE RISK MITIGATING	REASON FOR DEVIATION	AMOUNT//
04/10/2018	UD Trucks	The UD trucks Reg number : JCY 649 MP, had to be serviced by the manufacturer as their specialist /sole manufacture.	Fleet	SCM Sec 36 (1) (a) (ii) sole service provider	R13 341.60
04/10/2018	Rondebult aftersale (pty) ltd	The municipal Grader reg-number:FDV 712 MP , had to be taken back to the manufacture as Rondebult is an agent of Luigoing and also not to forfeit its warranty	Fleet	SCM Sec 36 (1) (a) (ii) sole service provider	R4 229.25
04/10/2018	Komatsu Sa (pty) ltd	The municipal grader reg number JGJ 484 MP , had to be taken back to the manufacture as Komatsu is the only distributor of parts and also not to forfeit its warranty	Fleet	SCM Sec 36 (1) (a) (ii) sole service provider	R4 190.07

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38. Deviation from supply chain management regulations (continued)

05/12/2018	Masinga Electrical	emergency assist the municipal electrical technician to diagnose and rectfy and defect at the westridge estate	Electricity	SCM Sec 36(1)(a)(i) in an emergency case	R40 455.85
31/12/2018	Sasol Delmas	Emergency supply of petrol and diesel to municipal vehicles	Finance	SCM Sec 36(1)(a)(i) in an emergency case	R30 000.00
24/12/2018	Sasol Delmas	Emergency supply of petrol and diesel to municipal vehicles	Finance	SCM Sec 36(1)(a)(i) in an emergency case	R80 000.00
29/02/2019	Sthebu Holdiings	Emergency hiring of jet truck nad combination truck	Roads	SCM Sec 36(1)(a)(i) in an emergency case	R113 400.00
21/02/2019	Sthebu Holdiings	Emergency hiring of jet truck with hossles for main line unblocking	Water & Sanitation	SCM Sec 36(1)(a)(i) in an emergency case	R50 400.00
15/02/2019	Sthebu Holdiings	Emergency hiring of jet truck and combination truck with hessles for mainline	Water & Sanitation	SCM Sec 36(1)(a)(i) in an emergency case	R54 000.00
05/05/2019	McCarthy commercial vehicle	Service of water tanker JCY 647 MP	Fleet	SCM Sec 36 (1) (a) (ii) sole service provider	R21 896.38

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38. Deviation from supply chain management regulations (continued)

28/02/2019	Makgaka property valuation	Supplementary valuation on omitted properties from the 2014 general valuation	Finance	SCM Sec 36 (1) (a) (ii) sole service provider	R300 520.00
22/03/2019	UD Trucks	Service of a UD compactor truck FHF 756 MP	Fleet	SCM Sec 36 (1) (a) (ii) sole service provider	R105 067.73
22/03/2019	Hino east rand	Service of a Hino compactor truck DSG 831 MP	Fleet	SCM Sec 36 (1) (a) (ii) sole service provider	R222 970.65
22/03/2019	Isuzu truck world	Service of an Isuzu truck - FPN 107 MP	Fleet	SCM Sec 36 (1) (a) (ii) sole service provider	R119 191.61
19/03/2019	D & G installation system	Repairs to models bee water pump station telemetry	Water & Sanitation	SCM Sec 36 (1) (a) (ii) sole service provider	R41 331.00
31/05/2019	Sthebu Holdiings	Emergency unblocking of the sewer mainlines	Water & Sanitation	SCM Sec 36(1)(a)(i) in an emergency case	R77 400
12/06/2019	UD Trucks	Servicing of UD truck JCY 647 mactured by UD	Fleet	SCM Sec 36 (1) (a) (ii) sole service provider	R47 784.90
12/06/2019	UD Trucks	Servicing of UD truck HGG 054 MP, as manufactured by UD	Fleet	SCM Sec 36 (1) (a) (ii) sole service provider	R17 141.60
12/06/2019	Isuzu	Purchasing of a clutch kit for FTG 387 MP	Fleet	SCM Sec 36 (1) (a) (ii) sole service provider	R8 482.73
31/05/2019	Hazard	Installation of traffic blue lights	Traffic	SCM Sec 36 (1) (a) (ii) sole service provider	R7 429.00

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38. Deviation from supply chain management regulations (continued)

31/05/2019	Deltoool cc	Strip , quote and fixing of bush cutters	Parks	SCM Sec 36 (1) (a) (ii) sole service provider	R5 880.1.
14/05/2019	Supplycor C.c	Emergency supply and delivery of traffic officers uniforms.	Traffic	SCM Sec 36(1)(a)(i) in an emergency case	R205 525.30

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39. Long service awards

Key financial assumptions

Assumption	**Value p.a.**
Discount rate	8.17%
General earnings inflation rate (long-term)	5.56%
Net effective discount rate	*2.47%*

Key demographic assumptions

Assumption	**Value**
Average retirement age	62
Mortality during employment	SA 85-90
Withdrawal from service (sample annual rates)	See Table A2.2

Valuation Assumptions

Assumptions	**30/06/2018**	**30/06/2019**
Discount rate	8.61%	8.17%
General earnings inflation rate (long-term)	6.21%	5.56%
Net discount rate	*2.26%*	*2.47%*
Average retirement age	60 for males; 57 for females	62

39. Long service awards (continued)

Pre-retirement mortality	SA85-90
Withdrawal rates	Updated per Table A2.2

Sensitivity Results
The liability at the Valuation Date was recalculated to show the effect of:
(i) A 1% increase and decrease in the assumed general earnings inflation rate;
(ii) A 1% increase and decrease in the discount rate;
(iii) A two-year decrease and increase in the assumed average retirement age of employees; and
(iv) A 50% decrease in the assumed withdrawal rates from service.

Short term portion	530 435	587 379
Long term portion	5 666 823	5 559 525
	6 197 258	**6 146 904**

40. Interest Income

Interest from debtors	60 754 602	41 177 243
Interest received - bank	1 613 544	280 292
	62 368 146	**41 457 535**

41. Agency Services

Vehicle registration levies	-	17 616 291

42. Operating lease

The operating lease comprise of the following:		
Vehicle leases	1 156 162	993 585
Photocopy machinery	1 073 309	644 506
Other rentals	-	511 569
	2 229 471	**2 149 660**

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43. Commitments

Authorised capital expenditure

Authorised operational expenditure

Already contracted for but not provided for		
• ICT Support	3 476 934	1 720 698
• Operating leases	4 239 779	700 665
• Fuel and diesel	-	1 021 181
• Other commitments	38 621 770	13 835 641
	46 338 483	**17 278 185**

Total operational commitments		
Already contracted for but not provided for	46 338 483	17 278 185

Total commitments

Total commitments		
Authorised capital expenditure	11 978 669	-
Authorised operational expenditure	34 359 815	17 278 185
	46 338 484	**17 278 185**

Operating leases - Minimum lease payments

Minimum lease payments due		
- within one year	6 508 235	-

Operating lease payments represent rentals payable by the municipality for rental of vehicles and equipments. The contracts are on a month to month basis and can end at any month end on agreement between the parties.

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44. Contingencies

The matters disclosed below are possible litigations to be charged against municipality which have not been finalised as yet.

List of contingent liabilities

VKLM vs L Pretorius	4 300 000	6 500 000
VKLM vs Telkom SOC	60 000	171 227
VKLM vs Trio Supplies	7 000 000	2 000 000
VKLM vs J Makhabane	160 000	271 000
VKLM vs Abram Masango	195 004	195 004
VKLM Vs Spank and Sons	512 544	-
VKLM Vs T.E Mdluli	2 000 000	-
VKLM Vs R.F Du Toit	3 500 000	-
VKLM vs PAIA Manual	150 000	-
	17 877 548	**9 137 231**

- VKLM vs L. Pretorius- Civil claim for damages arising out of the outbreak of typhoid.
- VKLM vs Telkom Soc- Civil claim for damages arising from the damage of the telephone line.
- VKLM vs Trio Supplies-A claim resulted from the supplier, Trio Supplies, claiming that goods were delivered to the Municipality and have not been paid.
- VKLM vs J Makhabane -Civil Claim arising from a motor vehicle accident.
- VKLM vs Abram Masango- A possible claim due to illegal demolition of erected shacks structures

-VKLM Vs Spank and Sons- Civil claimed for work allegedly done

-VKLM Vs T.E Mdluli- Civil seeks reinstatement in respect of the unexpired portion of her alleged contract

VKLM Vs R.F Du Toit- Civil claim for restoration to his permanent position within VKLM after his contract.

Contingent assets

List of contigent assets	**Amount**
Nkangala District Municipality - Construction of sewer pipeline	26 228 021

45. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds not available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

45. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2019	2018
Cash and cash equivalents	(25 463 279)	4 839 698
Trade receivables from exchange transactions	837 000	837 000
Investments	222 211	142 349
Receivables from non exchange transactions	4 463 773	2 931 034

46. Budget differences

Material differences between budget and actual amounts

1.**Interest Received (Trade debtors)** – R Million interest received due to increase in outstanding debtors accounts and increase in prime rate.

3 **Interest received: Investment** - The increase in interest was due to cash available to the municipality bank account which resulted the municipality receiving low interest.

4 **Property rates** - The increase in property rates was due to the reason of a new system that was appointed for property valuation and the alignment of billing to the valuation roll.

5. **Public Contribution** - Additional assets were transferred from Nkangala District Municipality than planned in the budget.

6. **Fines and Penalties** - The increase on fines and penalties is due to more fines that were issued for traffic fines for the financial year 2018/19.

7. **Depreciation** - The increase in depreciation was due to the reason that the municipality budget does not take the assets depreciation but only the budgeted depreciation which is estimated to be accounted by the municipality at year end

8. **Bulk purchases** - The municipality only budget for the bulk purchases for water and electricity to be bought for the financial year 2018/19 but due to the unforeseen reason the municipality ended up purchasing more on water since the municipality boreholes are not currently working to reduce the expenditure on rand water account.

9. **Debt impairment** - the increase is due to increase in non payment of services from customers. The assessment was done at year end which resulted from impairment of prior year consumer debts.

10. **Service charges** - It is due to increase in sale of electricity, increase in sale of water.

11. **Commission received** - Decreased due to no advertising income received in the current year.

12. **Actuarial gains** - Gain on long service awards obligations valuation.

13. **Employee costs** - Due to increase in overtime and basic salaries.

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46. Budget differences (continued)

14. **Depreciation and amortisation** - Due to assets prior year assets nearing its lifespan which will be assessed in the subsequent year.

15. **Finance costs** - Due to high increase in interest cost on Interest on long service awards.

16. **Contracted services** - Due to increase in more consulting work on Valuer, accounting, project management and communication services.

17. **Operating costs** - Increase in telephone expenses, audit fees, consumables and computer software licence fees (change in accounting softwares).

18. **Inventory** - Due to increase in overtime and basic salaries.

19. **Receivables from non- exchnage transactions** - Due to increase inIncrease to property rates tarriffs.

20. **Consumer debtors** - Due to increase in overtime and basic salaries.

21. **VAT receivables** - Increase in expenditure of bulk electricity and water.

22. **Cash and cash equivalents** - Due to overdraft on cashbook.

23. **Employee costs** - Due to increase in overtime and basic salaries.

24. **Investment properties** - Due to purchase of land of R30 million rand.

25. **Property plant and equipment** - Decreased due to most assets nearing its lifespan which increased depreciation in prior year..

26. **Other financial liabilities** - Decreased due to payment of Nedbank loan.

27. **Payables from exchange transactions** - Increase in non payment of creditors.

28. **Employee benefit obligations** - Due to decrease in medical aid benefit valuations.

29. **Bank overdraft** - Due to high reconciling items compared to prior year.

30. **Commitments** - Due to higher commitments on operational expenditure.

31. **Irregular expenditure** - Due to no write off of expenditure from councillors.

32. **Fruitless and wasteful expenditure** - Due to interest on Eskom and Rand water for non payment.

47. Lease rentals on operating lease

Equipment		
Contractual amounts	11 748	2 149 660

48. Other revenue

Administration and management fees received - third party	1 182 285	4 826
Fees earned	445 714	17 469
Commissions received	6 991	2 419 239
Other income	144 575	757
	1 779 565	**2 442 291**

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49. Prior period errors

1. Assets
During the 2018/2019 asset verification management discovered an assets with a Rand value of R2 310 000.00 that were not included in the asset register, it was then decided due to the materiality and nature of these assets to adjustments should be made on the annual financial; statements. The impact is dipicted below.
2. VAT
During the 2017/2018 audit the VAT with an amount of R2 228 726. was incorrectly for the impacts on the financial statements is diplicted below
3. Debtors with debit balances are reclassiffied to Payments received in advance.

The correction of the error(s) results in adjustments as follows and in note 50:

Statement of financial position

50. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2018

	Note	As previously reported	Correction of error	Reclassification	Restated
Debtors with credit balances		(7 869 916)	-	7 869 916	-
Payments received in advance		(1 222 013)	-	(7 869 916)	(9 091 929)
Investment property		-	664 800	-	-
Computer equipment		-	(3 217)	-	-
Community assets		-	3 745 379	-	-
Machinery and equipment		-	(17 817)	-	-
Land		-	(2 214 310)	-	-
Furniture and fittings		-	(20 737)	-	-
Transport asset		-	1 300	-	-
Infrastructure: Electricity		-	(2 824 502)	-	-
Infrastructure: Sanitation		-	201	-	-
Infrastructure: Water		-	993 710	-	-
		219 598 973	**3 623 492**	**-**	**227 919 658**

Statement of financial performance

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50. Prior-year adjustments (continued)

2018

	Note	As previously reported	Correction of error	Reclassification	Restated
Insurance		82 826	-	(82 826)	-
Advertising		-	-	82 826	82 826
Communications		-	-	941 114	-
Business and Advisory:Business and Financial Management		-	-	1 484 250	-
Project Management		-	-	1 520 580	-
Finance cost: Annuity loan		-	-	1 261 665	-
External Computer Service:Software Licences		-	-	103 500	-
Communication:Telephone Fax Telegraph and Telex		-	-	(941 114)	-
System development		-	-	(1 484 250)	-
Insurance Underwriting:Premiums		-	-	(2 049 991)	-
Registration Fees:Professional and Regulatory Bodies		-	-	(1 520 580)	-
Expenditure:Operational Cost:Skills Development Fund		-	-	(103 500)	-
Deficit for the year		**(148 769 337)**	**(3 298 685)**	**(788 326)**	**(152 068 022)**

Reclassifications

The following reclassifications adjustment occurred:

Operating costs

The municipality upgraded its financial system to comply with MSCOA and these resulted in changes in the manner in which transcations are classified. Advertising and insurance costs were reclassified as per above to comply with mSCOA.

51. VAT receivable

VAT receivables	38 543 741	30 060 405

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52. Related parties

Relationships

Accounting Officers	Refer to accounting officers' report note
Controlling entity	Nkangala District Municipality
Same controlling entities	Steve Tshwete Local Municipality
Members of key management	Disclosed in note 25
	ST Matladi (Acting Accounting Officer)
	T Mahlangu (CFO)
	MI Mbona (Deputy CFO)
Councillors	Disclosed in note 26

Steve Tshwete Local Municipality - VKLM procured services for diesel and petrol through SCM Regulation 32.

Related party balances

Amounts included in Trade receivable (Trade Payable) regarding related parties		
Department of Community Safety, Security and Liaison	(79 285 769)	(80 038 452)

Related party transactions

Donations received from related parties		
Nkangala District Municipality	5 951 691	5 852 518

53. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus (deficit) of R 599 024 758 and that the municipality's total liabilities exceed its assets by R 599 024 758.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

54. Events after the reporting date

There are no events after the reporting date.

55. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription fee	1 520 580	-
Amount paid - current year	(1 520 580)	-
	-	-

Audit fees

Current year subscription / fee	5 156 884	5 456 267
Amount paid - current year	(1 128 871)	(3 011 002)
	4 028 013	**2 445 265**

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55. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

Current year subscription / fee	19 029 852	17 240 636
Amount paid - current year	(10 556 083)	(8 313 666)
	8 473 769	**8 926 970**

Pension and Medical Aid Deductions

Current year subscription / fee	22 023 909	33 022 988
Amount paid - current year	(25 019 042)	(33 022 988)
	(2 995 133)	-

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor EM Sekhukhuni	1 392	700	2 092

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2019	Highest outstanding amount	Aging (in days)
Councillor EM Sekhukhuni	569	30

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